



Senator Jim Hargrove



24th Legislative District • 2002 Session News

Budget Update

How did we get here?

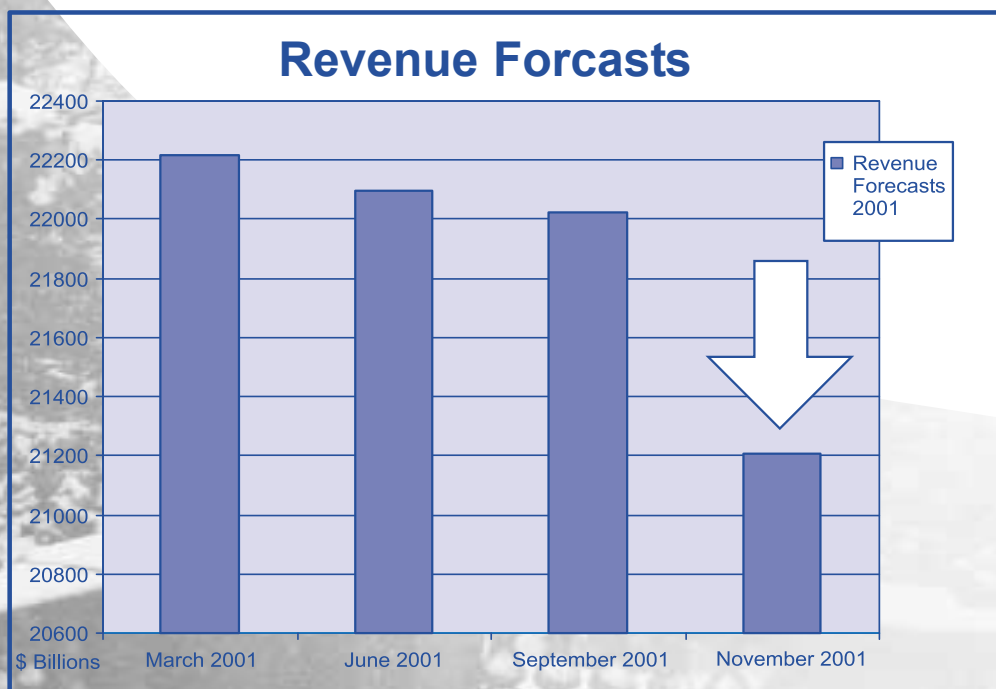
Before September 11, the economic slowdown and rising costs pointed to a \$300 million budget shortfall. This was challenging, but manageable, since the Legislature left over \$600 million in reserves.

After September 11, the bottom fell out of the state economy.

Boeing slashed jobs in response to reductions in the demand for commercial airplanes. Consumers and businesses put the brakes on spending. The state's chief economist, Dr. Chang Mook Sohn, calculates that the state will **lose over \$800 million as a result of the September 11 attacks**. The chart below shows how revenues have plummeted.

How could our finances decline so quickly? As a state, we rely on the sales tax and business and occupation tax for 75% of our revenue. Any event that slows consumer spending and business activity quickly and dramatically translates into lower revenues.

But this also means that our revenue will recover as the overall economy improves. Most economists expect the economy to begin growing again within a year. Nonetheless, we need to act quickly and firmly to deal with the current budget shortfall.





Many helpful ideas won't completely solve the problem.

We need to push state government to be more efficient. But as Representative Barry Sehlin of Oak Harbor told the Seattle Times, "This is not going to be solved with more-efficient use of paper at the copy machine."

We should continue to squeeze every dollar of fat we can out of government. Over the last six years, the legislature has refused to fund inflation increases for goods and services and cut an additional \$175 million in administrative expenses. The new budget will certainly contain more administrative cuts.

This is not an issue of government spending. Initiative 601, which I supported, sets a statewide spending limit. In years when revenues are high, the excess above the limit cannot be spent — it must be put in reserve or reduced through tax cuts. This year, according to the Senate Ways and Means Committee: "Due to the economic recession exacerbated by the terrorist attacks of September 11, total state general fund resources in December 2001 are more than a billion **less** than the current 601 limit."

Some ideas that have been suggested to solve the current budget crisis include getting the state to "tighten its belt." According to the Senate Ways and Means Committee, here is what some commonly suggested cuts could save for a year:

- ☒ Freeze purchases of computers, software, furniture, and office equipment (includes everything from personal computers to mattresses for state prisons). Saves \$75 million.
- ☒ Eliminate second year cost of living adjustment for state workers and all training. Saves \$61 million.
- ☒ Freeze out of state travel, including everything from travel to conferences to transporting prisoners to jails in other states. Saves \$6 million.
- ☒ Freeze purchases of state cars, including state patrol vehicles. Saves \$24 million.
- ☒ Ban state employee cell phone use. Saves \$1 million.

Total: \$167 million.

Another approach would be to eliminate specific agencies or programs, which would save the general fund this year:

- ☒ Close University of Washington. Saves \$361 million.
- ☒ Eliminate I-695 "Backfill" assistance to local government. Saves \$72 million.
- ☒ Close Community Trade and Economic Development. Saves \$71 million.
- ☒ Close Department of Health. Saves \$67 million.
- ☒ Close Department of Fish & Wildlife. Saves \$51 million.
- ☒ Close Department of Ecology. Saves \$45 million.

Total: \$667 million.

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Focusing on revenues, a number of tax breaks (loopholes) could be repealed, which would save this year:

- ☒ Eliminate Small Business Tax Exemption. Saves \$20 million.
- ☒ Eliminate Manufacturing Tax Exemption. Saves \$75 million.
- ☒ Eliminate R & D Tax Incentive. Saves \$13 million.
- ☒ Eliminate Property Tax Reduction. Saves \$103 million

Total: \$211 million.

Of course, what is a “tax loophole” or “non-essential program” to one person may be vital to someone else. But it shows the size of the problem we face that enacting all of the cuts and repealing all of the tax exemptions listed above would still be nearly \$200 million **less** than the budget gap.

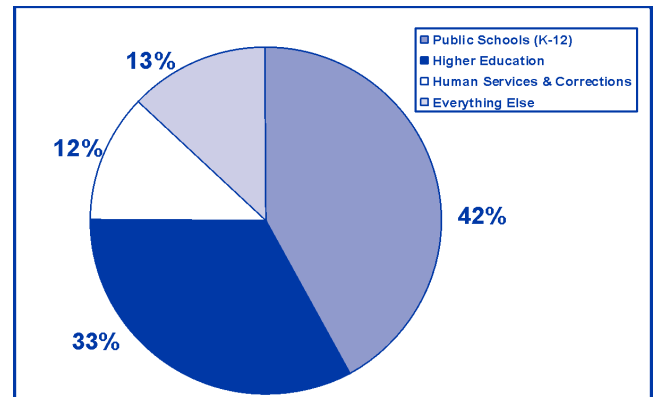
Balancing the budget will cost us more later.

87% of the state budget is spent in three areas: K-12 education; Higher Education; and Human Services (including corrections). If K-12 education is exempted from budget cuts, the cuts to the remaining areas have to be even larger.

In many areas, we risk undoing years of careful work to deal with a very large, but temporary budget problem. This is especially true in areas such as public health and prevention programs. For example, the Governor's budget proposal

- ↓ Reduces nursing home reimbursements by 11%.
 - ↓ Slashes children and family services, including programs to reduce child abuse and keep families together.
 - ↓ Eliminates help to local governments for public safety and health services.
- In the short run, the costs of these cuts will be borne by the small number of people who receive these services. In the longer run, society will pay the cost of these cuts through higher crime rates, more child abuse, more unemployment, and increased health care costs.

The job of the Legislature will be to look at all the options available for dealing with this severe but short-term drop in revenue. Deep cuts will be needed, but we must ensure that we don't create future problems by cutting programs that pay-off over time in stronger families and communities.



For more information on the budget situation, contact:

Senate Ways and Means Committee
P.O. Box 40482
Olympia, WA 98504-0482
Telephone (360) 786-7715

Toll-free Legislative Hotline:
1-800-562-6000

Website (with downloadable documents):
www.leg.wa.gov/senate/scs/wm

2002 Legislative Update

Dear Friends,

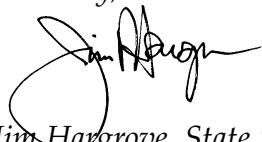
February, 2002

This session, the legislature must deal with the worst budget situation in twenty years. The sharp downturn in our economy after the September 11 attacks has left us with a gap of over \$1.2 billion between revenues and expenses. I will work to protect vulnerable citizens and education, and to scrape out every dollar of waste from the budget that I can. Still, while the economy will recover, in the short-term we must make hard choices to close that gap. I remain committed to staying above the political fray and working in a bipartisan manner to solve the state's problems.

I have enclosed some information on how the budget crisis developed and some of the options being discussed to meet it. If you would like more information, I encourage you to contact the Senate Ways and Means Committee, which publishes a number of documents that explain the budget situation in greater detail. Complete contact information for the Committee is contained inside.

I am very interested in hearing your specific suggestions for where we should make reductions, and which services should be preserved as we balance the state budget.

Sincerely,



Jim Hargrove, State Senator

24th District

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